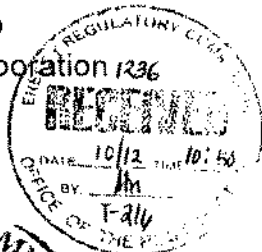




POWER SECTOR
ASSETS & LIABILITIES
MANAGEMENT CORPORATION



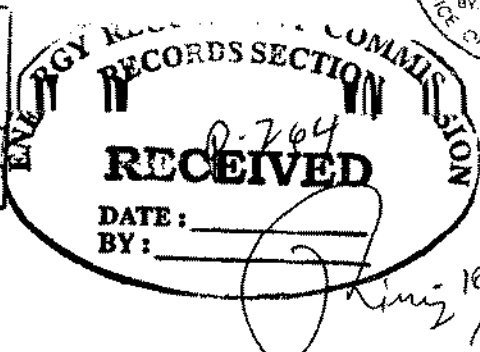
National Transmission Corporation 1236



NGC/ MRC 9/20/10/10/05

10 October 2005

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Hon. RODOLFO B. ALBANO, JR
Chairman
Energy Regulatory Commission
16/F Pacific Center Building
San Miguel Avenue, Ortigas Center
Pasig City

Subject: **TransCo's Financial Ratios for the Second Regulatory Period**

Dear *Chairman Albano*:

With reference to our meeting on September 22, 2005, TransCo and PSALM respectfully submit to the Honorable Commission the forecast financial ratio analysis for each Regulatory Year of the Second Regulatory Period. This submission adopts a zero or no debt scenario.

Further to this, TransCo and PSALM shall provide the Commission, as soon as possible, a 50% debt financial scenario for TransCo or for any future Concessionaire thereof.

For the consideration of the Honorable Commission.

Respectfully yours,

[Signature]

NIEVES L. OSORIO
President and CEO
Power Sector Assets and Liabilities
Management (PSALM) Corporation

[Signature]

ALAN T. ORTIZ, Ph.D.
President and CEO
National Transmission Corporation

CONSOLIDATED INCOME STATEMENT

(In Million Pesos)	2006	2007	2008	2009	2010
Gross Revenue	34,969	45,627	58,984	75,839	97,511
Less: Prompt Payment Discount	-	-	-	-	-
Net Utility Revenue	34,969	45,627	58,984	75,839	97,511
Ave. Net Rev., P/kw/mo	317.94	390.54	481.69	590.71	724.29
Operating Expenses	11,524	12,768	14,175	15,182	16,280
Depreciation/Depletion	5,444	5,895	6,202	6,410	6,622
Operations Expenditures	5,401	5,932	6,774	7,285	7,854
Personal Services	2,260	2,759	3,410	3,762	4,169
Maint & Other Operating Cost	3,071	3,087	3,261	3,400	3,540
Provision for Doubtful Accounts	70	86	103	123	146
Other Taxes	679	941	1,199	1,488	1,803
Net Operating Income	23,445	32,859	44,809	60,657	81,231
Interest Expenses	-	-	-	-	-
NOI after Finl. Charges	23,445	32,859	44,809	60,657	81,231
Interest Income	132	126	327	671	1,103
Other Income	108	108	109	109	109
Other Expenses	802	541	673	827	1,005
Net Income/(Loss) Before Income Tax	22,884	32,552	44,572	60,611	81,438
Provision for Income Tax	1,219	4,187	8,055	11,582	17,772
Net Income/(Loss)	21,665	28,365	36,517	49,029	63,666

CONSOLIDATED BALANCE SHEET

(In Million Pesos)	2006	2007	2008	2009	2010
Assets					
<i>Utility Plants</i>					
<i>Utility Plants</i>	240,686	257,889	268,875	275,039	280,684
<i>Less: Acc'd. Dep'n.</i>	75,655	81,550	87,752	94,162	100,785
<i>Net Utility Plant</i>	165,030	176,338	181,123	180,877	179,900
<i>Const. Work in Progress</i>	15,177	14,978	14,853	14,803	14,748
<i>Total Utility Plants</i>	180,207	191,316	195,976	195,679	194,648
Other Assets & Investment	1,676	1,482	1,288	1,095	901
Current Assets	15,619	18,059	25,255	31,452	42,745
Deferred Charges	462	659	782	831	883
Contingent Asset	8	8	8	8	8
Total Assets	197,971	211,525	223,309	229,065	239,185
Equities & Liabilities					
<i>Equities</i>					
<i>Equity Contribution</i>	130,144	139,872	147,658	150,123	153,996
<i>Appraisal Surplus</i>	57,391	57,391	57,391	57,391	57,391
<i>Total Equities</i>	187,535	197,263	205,049	207,514	211,387
<i>Liabilities</i>					
<i>Long-term Liabilities</i>	0	0	0	0	0
<i>Current Liabilities</i>	10,391	14,216	18,215	21,506	27,753
<i>Total Liabilities</i>	10,391	14,216	18,215	21,506	27,753
Deferred Credits	37	37	37	37	37
Contingent Surplus	8	8	8	8	8
Total Equity & Liabilities	197,971	211,525	223,309	229,065	239,185

CONSOLIDATED STATEMENT OF FINANCIAL OPERATIONS

(In Million Pesos)	2006	2007	2008	2009	2010
I. TOTAL RECEIPTS	35,072	45,775	58,684	74,804	96,153
1. <i>Operating Receipts</i>	33,873	44,206	57,203	73,592	94,621
a. <i>Net Operating Revenue</i>	34,969	45,627	58,984	75,839	97,511
b. <i>Change in Accounts Receivable</i>	(1,096)	(1,421)	(1,781)	(2,247)	(2,890)
2. <i>Other Receipts</i>	1,199	1,569	1,481	1,212	1,532
II. CURRENT EXPENDITURES	27,632	28,329	41,666	64,082	81,874
1. <i>Operating Expenses</i>	5,309	5,870	6,640	7,132	7,677
a. <i>Personnel Cost</i>	2,260	2,759	3,410	3,762	4,169
b. <i>Maint & Others Operating Exp.</i>	3,049	3,111	3,231	3,371	3,508
<i>Maint & Others Operating Exp. per IS</i>	3,071	3,087	3,261	3,400	3,540
<i>Change in Accounts Payable</i>	(22)	24	(30)	(29)	(31)
2. <i>Other Current Exp.</i>	22,323	22,459	35,026	56,950	74,197
a. <i>Interest Payment</i>	0	0	0	0	0
b. <i>Interest on NG Advances</i>	0	0	0	0	0
c. <i>Tax Payment to Nat'l. Govt.</i>	716	2,210	5,419	9,562	13,402
<i>Other Taxes</i>	678.73	941	1,199	1,488	1,803
<i>Income Tax</i>		1,219	4,187	8,055	11,582
<i>Custom Duties on Importations</i>	36.85	49	31	18	16
<i>Withholding Tax</i>	0.80	1	1	1	1
d. <i>Other Expenditures</i>	800	539	670	824	1,002
e. <i>Dividend Payments</i>	20,807	19,710	28,937	46,564	59,793
III. CAPITAL EXPENDITURES	11,790	17,154	10,955	6,145	5,630
<i>Acquisition of Assets</i>	11,827	17,203	10,987	6,163	5,645
<i>Less: Customs, Duties and Taxes</i>	(37)	(49)	(31)	(18)	(16)
IV. INTERNAL CASH GEN. (I-II)	7,440	17,446	17,018	10,722	14,279
V. FINANCING REQ'T. (I-II-III)	(4,350)	292	6,063	4,576	8,649
VI. EXTERNAL FINANCING (NET)	0	0	0	0	0
1. <i>Gross External Financing</i>	0	0	0	0	0
2. <i>Repayments & Amortizations</i>	0	0	0	0	0
VII. DOMESTIC FINANCING (NET)	4,350	(292)	(6,063)	(4,576)	(8,649)
1. <i>Nat'l. Gov't. Equity</i>	0	0	0	0	0
<i>PSALM Equity Infusion</i>	3,910	1,073	206	0	0
2. <i>NG Advances/Net Lending</i>	0	0	0	0	0
3. <i>Gross Domestic Bank Borrowings</i>	0	0	0	0	0
4. <i>Other Domestic Non-Bank Borrowings</i>	440	(1,365)	(6,268)	(4,576)	(8,650)
VIII OTHER BORROWINGS					
1. <i>Financing Shortfall/(Surplus)</i>	0	(0)	(0)	0	0

NATIONAL TRANSMISSION CORPORATION

Financial Ratio Analysis

CY 2006-2010

	2006	2007	2008	2009	2010
(a) Interest Cover Ratios:					
(i) EBIT / Interest Expense					
Net Income	21,665	28,365	36,517	49,029	63,666
(+) Gross Interest Expenses	0	0	0	0	0
(+) Total Income Taxes	1,219	4,187	8,055	11,582	17,772
(=) Total EBIT	22,884	32,552	44,572	60,611	81,438
Gross Interest Expense	0	0	0	0	0
(ii) EBITDA cov (EBITDA to Interest)					
Net Income	21,665	28,365	36,517	49,029	63,666
(+) Gross Interest Expenses	0	0	0	0	0
(+) Total Income Taxes	1,219	4,187	8,055	11,582	17,772
(+) Depreciation, Amort	5,446	5,897	6,204	6,412	6,624
(=) Total EBITDA	28,330	38,449	50,776	67,022	88,063
Gross Interest Expense	0	0	0	0	0
(b) Cash Flow Adequacy Ratios					
(i) Funds from Operations/Total Debt					
Net Income	21,665	28,365	36,517	49,029	63,666
(+) Other noncash Items	5,516	5,982	6,307	6,535	6,771
(+/-) Other Working Capital Adj.	(1,074)	(1,445)	(1,751)	(2,218)	(2,858)
(=) Internal Cash Generation	26,107	32,902	41,073	53,345	67,579
Total Debt	10,391	14,216	18,215	21,506	27,753
(ii) Free Operating Cash Flow / Total Del					
Net Income	21,665	28,365	36,517	49,029	63,666
(+) Other noncash Items	5,516	5,982	6,307	6,535	6,771
(+/-) Other Working Capital Adj.	(1,074)	(1,445)	(1,751)	(2,218)	(2,858)
(=) Internal Cash Generation	26,107	32,902	41,073	53,345	67,579
(-) Capex	11,827	17,203	10,987	6,163	5,645
Free Operating Cash Flow	14,279	15,699	30,086	47,182	61,933
Total Debt	10,391	14,216	18,215	21,506	27,753
(c) Profitability Ratios					
(i) EBITDA / Sales					
EBITDA	28,330	38,449	50,776	67,022	88,063
Net Utility Revenue (Sales)	34,969	45,627	58,984	75,839	97,511

NATIONAL TRANSMISSION CORPORATION

Financial Ratio Analysis

CY 2006-2010

	2006	2007	2008	2009	2010
(d) Capital Structure and Leverage Ratios:					
(i) Long-Term Debt / Total Capital	0.00%	0.00%	0.00%	0.00%	0.00%
Long-Term Debt	0	0	0	0	0
Total Capital	197,926	211,480	223,264	229,020	239,140
(ii) Total Debt / Total Capital	5.25%	6.72%	8.16%	9.39%	11.61%
Total Debt	10,391	14,216	18,215	21,506	27,753
Total Capital	197,926	211,480	223,264	229,020	239,140
(iii) Debt / Equity	0.00%	0.00%	0.00%	0.00%	0.00%
L/T Debt	0	0	0	0	0
Equity	187,535	197,263	205,049	207,514	211,387
Total Capitalization **	197,926	211,480	223,264	229,020	239,140
Short-term Debt	10,391	14,216	18,215	21,506	27,753
(+) Current Maturities	0	0	0	0	0
(+) Long Term Debt	0	0	0	0	0
(+) Equity	187,535	197,263	205,049	207,514	211,387

Assumptions: CY 2006-2010

The financial statements and ratios being prepared for CY 2006-2010 are based on a scenario that TransCo will start with zero debt identified with the transmission facilities transferred from NPC to TransCo. All assets booked are assumed to be supported by equity from PSALM. The debt comes in only on the year when and if ever TransCo's internal cash generation will no longer be sufficient to cover funding for capital expenditures.

I. Income Statement

1. Revenue

The annual revenues are based on the computed MAR as submitted which include allowance for tax on regulated income in modelling the ARR in the expectation that the policy of privatisation will be carried out and TransCo's business will be owned by a taxable entity for the whole of the Second Regulatory Period.

2. Depreciation

Depreciation is straight-line method based on the results of the ODRC valuation. TransCo's accounting policy for depreciation is based on the weighted average remaining lives and weighted economic lives per asset category for existing assets and new assets, respectively.

Historical values are used in computing depreciation for Income Tax purposes as set out in the TransCo/PSALM Submission.

3. Operations Expenditures

The forecast operating and maintenance expenditures are based on the review, findings and recommendation of SKM.

4. Taxes

- The income tax assumed in the financial projections is based on the income tax rates as set out in Transco/PSALM submission.
- Other Taxes are based on TransCo/PSALM submission.

II. Balance Sheet Items

1. Fixed Assets

Fixed Assets are based on ODRC values as set out in the Transco/PSALM Submission.

Historical values are used in computing depreciation for Income Tax purposes as set out in the TransCo/PSALM Submission.

2. Working Capital

Computation of working capital is consistent with those assumed in the TransCo/PSALM submission. The revenue lag is 48 days while the expenses lead is 20.2 days, yielding a net lag of 27.8 days, which is 7.6% of 365 days.

The timing of income tax payments and the corresponding allowance for income tax, generates a need for additional working capital in 2006 equal to 44% of the tax due for 2006. In each of the remaining years of the reset period, the additional amount of working capital required is on average equal to 81% of the tax due for the year.

3. Debt

TransCo assumes a no debt scenario as all of the debts are held by PSALM.

4. Equity

Transco assumes a zero debt scenario and all assets based on the ODRC value are assumed to be supported by equity from PSALM.

III. Cash Flow

1. Capital Expenditures

Capital Expenditures are based on the SKM review and recommendation.

2. Debt Repayments

Assumes a no debt scenario.

3. Financing for Capex

Capital Expenditures without definite financing shall be funded by internal cashflows and any shortfall to be funded by new debt to be raised by NPC/PSALM.

4. Dividend Payment

TransCo shall remit all its earnings to PSALM under the EPIRA. Cash remittance or dividend payment shall be the Net Income or Dividendable Cash after taking into account requirements for capital expenditures, whichever is lower. All drawings from existing loans, funding the forex portion of capital expenditures, shall form part of equity infusion from PSALM. Any additional cash requirements shall be provided by PSALM through equity infusion which means that Transco will continue to be debt-free.

IV. Macroeconomic Assumptions

	2006	2007	2008	2009	2010
Forex Rates (Php/USD)	58.34	59.98	61.03	61.29	62.35
Consumer Price Rate					
Local (%)	7.20	5.80	4.60	3.90	3.90
Forex (%)	2.90	2.90	2.80	2.80	2.80